

Prior U.S. Cl.: 26

United States Patent and Trademark Office Reg. No. 1,398,334
Registered June 24, 1986

**TRADEMARK
PRINCIPAL REGISTER**

CPR PROMPT

HUTCHINS, DONALD C. (UNITED STATES
CITIZEN)
60 BROOKDALE DRIVE
SPRINGFIELD, MA 01104

FOR: RESCUE AID; NAMELY, AN ELEC-
TRONIC UNIT HAVING A MICROPROCESSOR
AND VOICE SYNTHESIZER FOR LEADING A
CERTIFIED RESCUER THROUGH CARDIO-
PULMONARY RESUSCITATION PROCE-
DURES, IN CLASS 9 (U.S. CL. 26).

FIRST USE 6-20-1984; IN COMMERCE
6-20-1984.

NO CLAIM IS MADE TO THE EXCLUSIVE
RIGHT TO USE "CPR", APART FROM THE
MARK AS SHOWN.

SER. NO. 553,351, FILED 8-14-1985.

DAVID C. REIHNER, EXAMINING ATTOR-
NEY



Nº 1398334

THE UNITED STATES OF AMERICA

CERTIFICATE OF REGISTRATION

This is to certify that the records of the Patent and Trademark Office show that an application was filed in said Office for registration of the Mark shown herein, a copy of said Mark and pertinent data from the Application being annexed hereto and made a part hereof,

And there having been due compliance with the requirements of the law and with the regulations prescribed by the Commissioner of Patents and Trademarks,

Upon examination, it appeared that the applicant was entitled to have said Mark registered under the Trademark Act of 1946, and the said Mark has been duly registered this day in the Patent and Trademark Office on the

PRINCIPAL REGISTER

to the registrant named herein.

This registration shall remain in force for Twenty Years unless sooner terminated as provided by law.

In Testimony Whereof I have hereunto set my hand and caused the seal of the Patent and Trademark Office to be affixed this twenty-fourth day of June 1986.

A handwritten signature in cursive script, reading "Ronald D. Zigg".

Commissioner of Patents and Trademarks

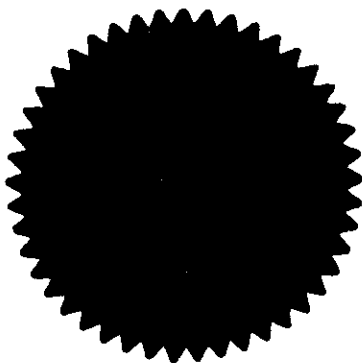


EXHIBIT E

PATTERSON, THUENTE, SKAAR & CHRISTENSEN, P.A.

Patent, Trademark, Copyright, Internet & Related Causes

RANDALL T. SKAAR
(612) 349-5749
skaar@ptslaw.com

April 30, 2004

Mr. Donald Hutchins
1047 Longmeadow Street
Longmeadow, MA 01106-2201

RE: William Parker v. Cardiac Science, Inc.
Our File No.: 1798.155-LIT-01

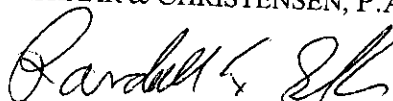
Dear Donald:

Thank you for taking the time to talk to me yesterday. I appreciated the background information you provided. I would like a copy of your cross-license agreement with Parker. At your suggestion, I will ask your patent attorney, Charles Hieken, for a copy of that agreement.

Thanks again.

Very truly yours,

PATTERSON, THUENTE,
SKAAR & CHRISTENSEN, P.A.



Randall T. Skaar

RTS/cb

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EXHIBIT F



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Tuesday June 1, 2004

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POWERHEART AED G3

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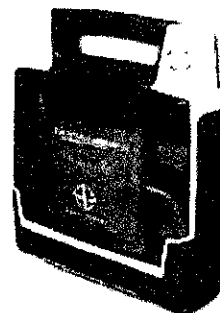
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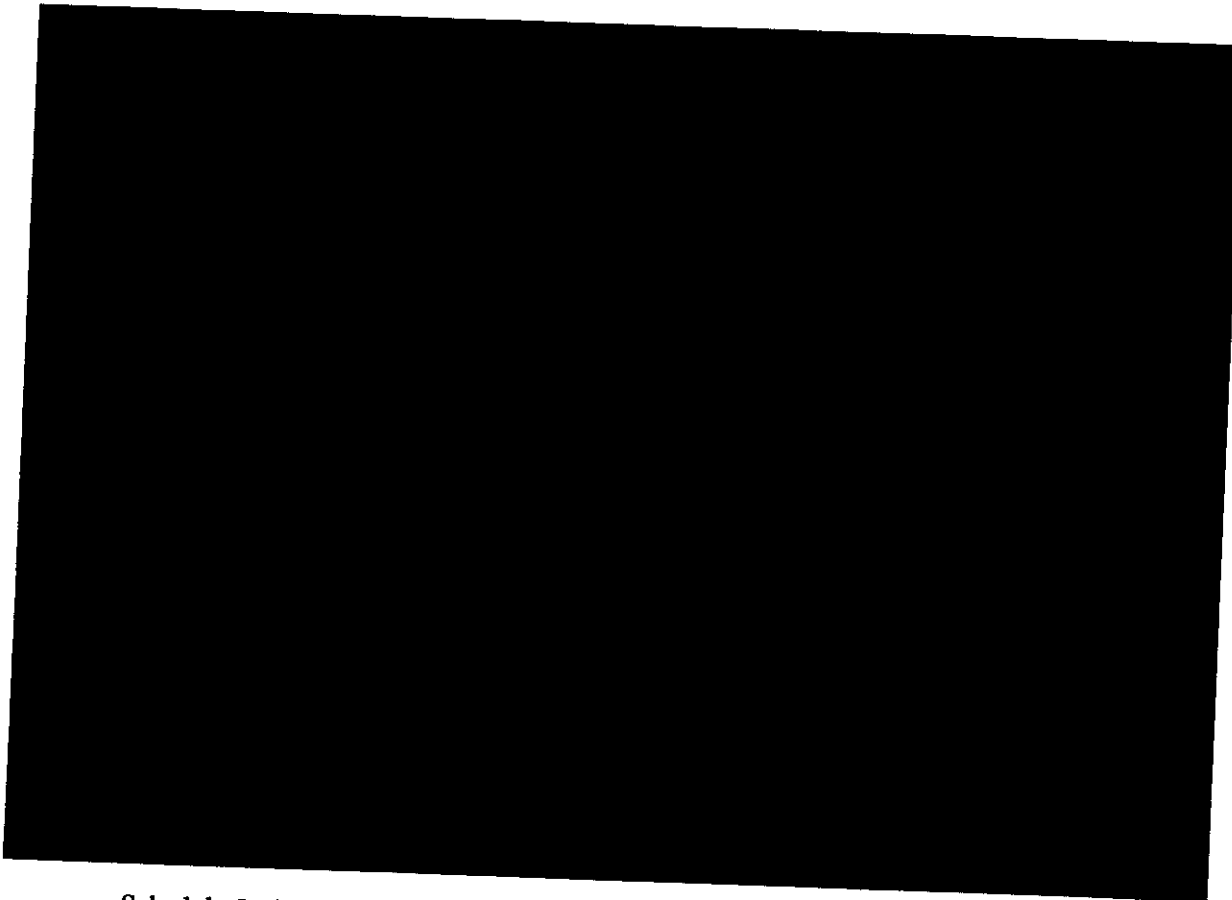
Select from these 44 title(s):

- [CPR Prompt ElectroLast\(TM\) AED Trainer Electrode Peel-Off Pads/Heartstream \(For CPR Prompt and Similar Type Manikins\)](#)
- [CPR Prompt ElectroLast\(TM\) AED Trainer Electrode Peel-Off Pads/Medtronic Physio-Control \(For CPR Prompt and Similar Type Manikins\)](#)
- [CPR Prompt ElectroLast\(TM\) AED Trainer Electrode Peel-Off Pads/Survivalink \(For CPR Prompt and Similar Type Manikins\)](#)
- [CPR Prompt\(R\) CPR/AED Training & Practice Pack, Tan](#)
- [CPR Prompt\(R\) CPR/AED Training Pack](#)
- [5-Pack CPR Prompt Manikin Electrode Pad Set](#)
- [5-Pack Insertion Tool For CPR Prompt \(R\) Face Shield Lung Bags](#)
- [5-Pack Non-CPR Prompt Manikin Electrode Pad Set](#)
- [CPR Prompt \(R\) Professional AED Training System](#)
- [CPR Prompt 5-Electrode Pad Polybags](#)
- [CPR Prompt AED Trainer Carrying Case](#)
- [CPR Prompt AED Trainer Electrode Plug/Wire Set](#)
- [CPR Prompt Adult/Child Professional Training Manikin](#)
- [CPR Prompt Bag Valve Mask](#)
- [CPR Prompt ElectroLast\(TM\) AED Trainer Electrode Peel-Off Pads/Heartstream \(For "Skin" Type Manikins\)](#)
- [CPR Prompt ElectroLast\(TM\) AED Trainer Electrode Peel-Off Pads/Medtronic Physio-Control \(For "Skin" Type Manikins\)](#)
- [CPR Prompt ElectroLast\(TM\) AED Trainer Electrode Peel-Off Pads/Survivalink \(For "Skin" Type Manikins\)](#)
- [CPR Prompt Extra Adult/Child Head Packs](#)
- [CPR Prompt First-Aid Kit](#)
- [CPR Prompt HLS Instruction Video](#)
- [CPR Prompt HLS Instruction Video \(BLS Only\) **Spanish**](#)
- [CPR Prompt Home Learning System](#)
- [CPR Prompt Home Learning System \(with Spanish video\)](#)
- [CPR Prompt Key Chain Barrier Device](#)
- [CPR Prompt Manikin Electrode Pad Set](#)
- [CPR Prompt Manikin T-Shirt](#)
- [CPR Prompt Pocket Mask](#)

- CPR Prompt Professional Training Manikin (infant)
- CPR Prompt Professional Training Manikin Pack (5 Adult/Child Training Manikins)
- CPR Prompt Professional Training Manikin Pack (Infant 5-Pack)
- CPR Prompt Professional Training Manikin Pack (Infant And Adult/Child Combination Pack)
- CPR Prompt Rescue And Practice Aid
- CPR Prompt Rescue And Practice Aid (pocket/key chain version)
- CPR Prompt(R) Adult/Child Professional Training Manikin (Tan)
- CPR Prompt(R) Extra Adult/Child Head Packs, Tan
- CPR Prompt(R) Extra Infant Head Packs
- CPR Prompt(R) Extra Infant Head Packs, Tan
- CPR Prompt(R) Professional Training Manikin Pack (Infant 5-Pack), Tan
- CPR Prompt(R) Professional AED Training System, Tan
- CPR Prompt(R) Professional Training Manikin (Infant), Tan
- CPR Prompt(R) Professional Training Manikin Pack (Adult/Child 5-Pack), Tan
- CPR Prompt(R) Professional Training Manikin Pack (Infant and Adult-Child Combo Pack), Tan
- Large Blue Carry Bag For CPR Prompt (R) Manikins
- Non-CPR Prompt Manikin Electrode Pad Set

EXHIBIT G

IP Summary for Compliant Corporation



Schedule 5.1(p) also includes a listing of the Hutchins license agreement dated June 1, 1994, and notes that Mr. Hutchins retains the right to use the mark "CPR Prompt" with reference to the name of his business only. The underlying patent to the Hutchins license, US 4,583,524 is in force until November, 2004, as are most of the related foreign patents. Apparently the Japanese patent application listed in the schedule at the end of the license agreement was never issued. Hutchins has a subsequently issued U.S. patent (No. 5,913,685) related to the technology of the license agreement, which, according to section 4.6 of the license, can be included in the license. Compliant is of the opinion that this patent is already included in the license.

IP Assignment

INTELLECTUAL PROPERTY ASSIGNMENT

WHEREAS, Compliant Corporation, a Delaware Corporation, the ASSIGNOR herein, having an ownership interest in the intellectual property described on attached Schedule A; and WHEREAS, Cardiac Science, Inc., a Delaware Corporation, the ASSIGNEE herein, desires to acquire the entire right, title and interest in and to said intellectual property;

NOW, THEREFORE, for consideration disclosed in the Asset Purchase Agreement entered into between ASSIGNOR and ASSIGNEE on the date of _____, said ASSIGNOR, has sold and does hereby sell, assign, transfer and set over unto said ASSIGNEE, its successors and assigns, the entire right, title and interest in and to said intellectual property listed on Schedule A attached hereto, including any divisional and continuing applications and continuations-in-part related to the patents or patent applications listed in Schedule A, as well as the goodwill and portion of the business associated with the marks listed on Schedule A which is assigned to ASSIGNOR pursuant to the Asset Purchase Agreement indicated above.

And for the above-named consideration, ASSIGNOR does hereby agree to, at the request of said ASSIGNEE, execute any and all papers and documents and do all other and further lawful acts that said ASSIGNEE may deem necessary or desirable to perfect and vest in the ASSIGNEE the entire right, title and interest in the intellectual property being assigned.

DATED at _____, this ____ day of _____, 20____

Name

Title

For Compliant Corporation

STATE OF OHIO)

) ss.

COUNTY OF)

On this ____ day of _____, before me personally appeared _____ to me known or proved on the basis of satisfactory evidence to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he/she executed the same.

(SEAL)

Notary Public

EXHIBIT H

WEDBUSH MORGAN SECURITIES

Equity
Research

LOS ANGELES | NEW YORK | PARIS | SAN FRANCISCO

Research Note

October 29, 2003

Price (as of close on 10/28/03)

\$4.07

Rating

BUY

12- Month Target Price

\$4.50

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keay.nakae@wedbush.com

Mariela I. Clark
+1 213 688 4355
mariela.clark@wedbush.com

Cardiac Science (DFIB)**Company reports solid results. Raising price target to \$4.50**

52-Week Range	\$1.77-\$5.10	Long-Term Debt (million)	\$46.0
Shares Outstanding	69.9 million	Debt/Capital (Q3:03)	31.8%
Institutional/Insider	27%/20%	ROE (trailing 1 yr)	N/M
Public Float	69.1 million	Cash & Inv/Share (Q3:03)	\$0.20
Market Capitalization	285 million	Book Value/Share (Q3:03)	\$1.41

FYE DEC	2002A	2003E		2004E	
EPS(\$)*	ACTUAL	CURRENT	PREVIOUS	CURRENT	PREVIOUS
Q1 Mar	(0.05)	\$(0.04)A	-	\$(0.02)E	\$0.00E
Q2 Jun	(0.06)	(0.03)A	-	(0.01)E	0.01E
Q3 Sep	(0.06)	(0.02)A	-	0.03E	0.03E
Q4 Dec	(0.05)	(0.02)E	0.00	0.04E	0.05E
Year**	(0.22)	\$(0.11)E	\$(0.09)	\$0.05E	\$0.08E
P/E Ratio	N/A	N/A		81x	
Change	N/A	N/A		N/A	

FYE DEC	2002A	2003E		2004E	
Revenue (mil)*	ACTUAL	CURRENT	PREVIOUS	CURRENT	PREVIOUS
Q1 Mar	\$9.4	\$14.0A	-	\$19.7E	\$16.8E
Q2 Jun	12.8	14.5A	-	22.5E	18.4E
Q3 Sep	13.6	15.7A	-	26.2E	20.3E
Q4 Dec	14.3	18.5E	17.1E	29.5E	22.1E
Year**	\$50.0	\$62.8E	61.1E	\$98.0E	\$77.7E
Change	370%	26%		56%	

* Both Revenue and EPS are on a GAAP (Generally Accepted Accounting Principles) basis.
** Numbers may not add up due to rounding.

ACTION ITEMS

- For the full-year 2003, we are increasing our revenue estimate by \$1.7 million to \$62.8 million. However, we are also increasing our net loss by \$0.02 from \$(0.09) to \$(0.11). We now expect the company to achieve positive net income in the third quarter of 2004.
- For the full-year 2004, we are increasing our revenue estimate by \$20.3 million to \$98 million, but are decreasing our EPS estimate by \$0.03 to \$0.05.
- We maintain our **BUY** rating and are establishing a new 12-month price target of **\$4.50**.

KEY POINTS

- Third quarter revenue increased 15% to \$15.7 million, which was slightly above our estimate of \$15.3 million.
- Reported net **loss** per share of \$0.02 was in-line with our estimate and consensus.
- AED sales grew robust 57% to \$15.0 million, which was above our estimate of \$13.9 million. Unit sales climbed 82% year-over-year, while ASPs remained essentially unchanged.

Company Description

Cardiac Science develops, manufactures, and markets automatic external defibrillators (AEDs) used to treat patients at risk of sudden cardiac arrest. The company is headquartered in Irvine, CA.

Medical Devices

Please refer to the end of this report to obtain important disclosure information.

- Gross margin improved sequentially by 330 basis points to 60.5%, as a result of reduced cost of goods sold and favorable shift in the product mix, while overall company profitability slightly declined.
- Management pushed profitability further out by two quarters.
- The Compliant acquisition will add significantly to revenue growth but will depress gross margins. We view this acquisition favorably and believe it is a sound strategic move.

THIRD-QUARTER REVIEW

Cardiac Science has reported solid third-quarter results that were overall in-line with our expectations. Revenue increased by 15% to \$15.7 million, which was slightly above our estimate of \$15.3 million. The reported net loss per share of \$0.02 was in-line with our estimate and consensus. Gross margin continued to exhibit improvement, increasing sequentially by 330 basis points to 60.5%, which exactly matched our estimate. Gross margin improvement was primarily attributable to the increasing sales of the new higher-margin G3 AED units representing a greater proportion (~60%) of total AED sales mix. Selling and marketing expense, at 29.0% of sales, was significantly higher than our estimate because of a higher commission payout tied to increased revenue and additional recurring marketing expenditures related to the new product lines. General and administrative expense was 21.5%, which was 130 basis points higher than our estimate due to increased facility and overhead expenses needed to support the rapid sales growth of new products. G&A also included \$450,000 in litigation expenses associated with the patent lawsuit against Philips Medical Systems, a subsidiary of Philips Electronics (PHG – Not Rated). R&D expense of \$1.4 million was slightly below our estimate. The company provided fourth quarter revenue guidance in the range of \$18 to \$21 million (including revenue of \$1.8 to \$2.5 million from recently acquired Compliant Corp.) and gross margin in the range of 59% to 62%. Furthermore, management now expects to achieve net income profitability by the second quarter of next year versus previous guidance of net income profitability in the fourth quarter of this year. This push out is due to the initial dilutive effects of the Compliant acquisition.

AED sales totaled \$15.0 million, which represented robust 57% growth year-over-year. The company sold approximately 8,050 AED units during the quarter, with the U.S. corporate workplace market segment and municipalities accounting for over 78% of total domestic AED units sold. International AED sales were up 100% and accounted for 17% (or \$2.6 million) of total AED sales. U.S. average selling price (ASP) for AEDs in the third quarter remained flat sequentially at approximately \$1,900.

AED REVENUE BREAKDOWN		
Domestic (by market segment)		(\$ mil)
Corporate	52%	6.4
PAD Programs & Government	26%	3.2
Fire, Police and EMS	7%	0.9
Medical & Dental	8%	1.0
Schools	7%	0.9
Total Domestic	100%	\$ 12.4
International (by region)		
Japan and U.K.	40%	1.0
Other	60%	1.6
Total AED sales	100%	2.6
		<u>\$ 15.0</u>

Source - Company reports

Sales of *Powerheart CRM* units and disposable defibrillator pads to hospital customers contributed \$238,000 versus \$296,000 in the same period last year. Sales of equipment, which consists primarily of the *Diascope G2* hospital patient-monitors, contributed only \$210,000 and continued to be adversely impacted by the volatile geopolitical conditions in the Middle East. In addition, the company shut down its Denmark manufacturing facility, sold off the gas monitoring unit of Artema for \$0.6 million, and completed the phase out of its Artema legacy patient monitoring inventory.

Litigation

This past February, the company filed a patent infringement lawsuit against Philips Medical Systems, a subsidiary of Philips Electronics, regarding certain patents related to its AED technology. The company alleges that Philips's AEDs sold under the names "HeartStart OnSite Defibrillator" and "HeartStart Home Defibrillator" infringe on at least seven patents held by Cardiac Science, which include patents associated with features such as pre-connected disposable defibrillation electrodes and daily self-testing of electrodes and batteries. We believe that the company's recent success (Zoll settlement) in this area bodes well for an eventual positive outcome to this litigation. However, legal expenses of up to several hundred thousand dollars per quarter related to this litigation represent the biggest wildcard to G&A expenses for the next several quarters.

ANALYSIS

The launch of the new *Powerheart AED G3* and *Firstsave AED G3* are off to a strong start. Demand for the new units exceeded supply as the company exited the quarter with an order backlog of \$0.63 million. Unit growth of 83% was quite impressive, we estimate growing at more than twice the rate of the market. The G3 AEDs sport a new industrial look in a lighter weight package, and feature a more intuitive voice prompt system. However, while the full-featured *Powerheart* (which lists at \$2,495) retains all of the bells and whistles, the *Firstsave* (which lists at \$1,995), lacks the LED screen, escalating energy shocks, and programmability features. We believe this tiered product strategy help to prevent further erosion in ASPs during the quarter. From our perspective, the most compelling feature of the new G3 AEDs are the product-engineering initiatives that have resulted in a further 30% reduction in AED component costs. Since we expect that AED ASPs will continue to decline going forward, we are encouraged by the likelihood that AED gross margins will improve in the near-term and potentially can be preserved in the longer-term. Despite the G3's representing only 60% of the AED mix in the quarter, this was enough to allow gross margin to increase sequentially by 330 basis points to 60.5%.

OEM Agreement With GE

Cardiac Science announced last quarter that it has entered into new multi-year strategic OEM, distribution and development agreements with GE Medical Systems Information Technologies. Under the agreement, GE will market Cardiac Science automated external defibrillators (AEDs) and fully-automatic in-hospital defibrillator-monitors (CRMs) under the GE name in Europe, Asia (excluding Japan), the Middle East and other international markets. Cardiac Science will also develop and manufacture a line of biphasic external defibrillators for exclusive sale by GE on a worldwide basis.

The company shipped its first *Powerheart G3* AEDs, which was branded as the *GE Responder*, at the end of the third quarter. For now GE will only sell AEDs outside of the U.S., except in Japan, where Nihon Kodan sells the *Powerheart AED* as it owns branded product. While the agreement does not specify a minimum purchase agreement, we believe that GE is capable of selling at least 1,000 units in the first 12 months. We believe that it is also possible that GE could elect to begin U.S. sales of the Cardiac Science AEDs at some point in the future within certain market segments. GE currently is a distributor in the U.S. of the Zoll (ZOLL:Not Rated) *AED+* in the non-hospital medical sector of the market.

Cardiac Science has initiated development of a new external hospital defibrillator for GE. GE currently sells its *Cardioserve* external defibrillator in Europe, but currently does not sell defibrillators in the U.S. despite its large presence in the hospital monitor market. Cardiac Science will provide updated technology, including its *RhythmX* software, and *Star* biphasic energy delivery system, for a new external defibrillation device that will be marketed as the GE

Responder 2000. We anticipate that this device will be available for international sales by the third quarter of 2004, and for U.S. commercial sales to commence at the beginning of the fourth quarter in 2004. The company has hired 30 additional people to its R&D staff to work on this project.

Finally, the agreements include the development of other products. This would include the future development of a defibrillation module, which would then be sold as a plug-in feature of GE's hospital monitors.

At this time, we anticipate that the GE agreement will have a minimal financial impact in the near-term, adding perhaps an additional \$0.5 million in Q4 revenue. However, we expect the revenue impact in 04 to be \$8 million.

Acquisition of Compliant

Last week the company announced the acquisition of privately-held Compliant Corporation for \$47 million using 10.25 million shares of its common stock. Compliant is the nation's leading provider of AED and CPR training and comprehensive program management. Essentially, Compliant offers a turn-key after-sales service package that makes it easier for customers to deploy these products. The service package includes: medical direction for obtaining the prescription for the AED, coordination of all aspects of AED deployment including site surveys, AED/CPR training for customer employees, and web-based software for record-keeping.

Compliant has been generating annual revenue of approximately \$12 million but was losing money. Since Compliant did not manufacture its own AEDs, we believe that it lacked the scale necessary to grow this service business profitably. Cardiac Science has had an existing, non-exclusive, relationship with Compliant for over a year. We believe the ability to offer a complete package of these services is a value added component of the sale. Thus we believe this acquisition is a sound strategic move by Cardiac Science, which is as much defensive as it is offensive. Cardiac Science can continue to provide this value-added service, which it can tailor to meet its specific needs, and likely can increase the profitability of this service. However, it forces its competitors, who have either previously used Compliant's services or were considering using them, to now find their own resources to accomplish these tasks, providing Cardiac Science, we believe, with a competitive advantage for now. While on the surface there would appear to be few barriers to prevent someone else from establishing this same type of business, we doubt that logistically it is something that can be established, at the same level as Compliant, overnight, let alone within a couple of years.

The company has already taken steps to integrate and improve this business. They immediately reduced the headcount from 50 to 42 people. The next step is to streamline certain aspects of the service package to make it even more attractive to customers. This includes reducing the term of the service contract from three years to twelve months, and eliminating periodic site visits to inspect the AED, which given the self-check features of the company's AEDs is likely unnecessary.

The company estimates that Compliant will add additional revenue of \$15 to 20 million in 2004. The only drawback is that the current gross margins generated by this business are at the 50% level, which will have the effect of depressing the overall gross margins of the company.

Finally, we believe that there are implications associated with the issuance of the 10.25 million shares to purchase this company. This common stock will be subject to a lock-up agreement. The resale of the shares shall be registered with the SEC and 1.325 million shares will become available for resale on the effective date of the registration statement, which we expect to occur sometime in January. The balance of the shares issued are subject to a lock-up agreement pursuant to which they shall be released for sale in 12 equal monthly installments or 743,750 shares per month, beginning on the effective date of the registration statement. Previously, the